

DEPARTMENT OF DEFENSE

**FINANCIAL MANAGEMENT
IMPROVEMENT PLAN**

VOLUME I

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FOREWORD

Purpose The Financial Management Improvement Plan is a single integrated plan incorporating almost all aspects of the Department's financial management operations. It includes information on critical feeder systems owned or controlled by the Military Departments and Defense Agencies that provide the majority of data to the Department's finance and accounting systems. The Plan satisfies the financial reporting requirements specified in the following regulatory reporting requirements:

- Chief Financial Officers (CFO) Financial Management Five Year Plan - CFO Act of 1990, submitted annually on September 30
 - Remediation Plan - Federal Financial Management Improvement Act (FFMIA) of 1996, submitted annually September 30
 - Statement of Assurance, Section IV – Federal Managers' Financial Integrity Act of 1982, submitted annually December 31
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The Plan is Divided into Two Volumes Because of the range and amount of detailed information contained in the Plan, the Plan is divided into two volumes. Volume I contains the Department's vision for its financial management operations, the current status of financial management, and the plan for moving from the present state to the future vision. Volume II provides the details on the Department's financial management systems and initiatives outlined in Volume I, including graphical and narrative depictions of the relationships of the Department's finance, accounting, and critical feeder systems.

Volume I Overview Volume I of the Plan begins with the Department's Concept of Operations (Concept). The Concept describes the Department's vision of future financial management operations. The Department will use the Concept to guide the transition and evolution of its financial management policies, systems, functions, and improvement initiatives.

The Concept addresses the Department's interrelated functional and infrastructure concepts within the target architecture. The target architecture describes the framework of an integrated financial management system in which financial management operations are performed.

The Concept is followed by the Current Environment section. This section highlights the substantial progress the Department has made in improving its financial management operations. It also describes the Department's current financial management roles and responsibilities and the short-term implementation strategies the Department is pursuing to resolve impediments to auditable financial statements.

The Transition Plan follows the Current Environment section. It identifies the compliance status of the Department's finance and accounting systems and critical feeder systems, as described in the target architecture. It also links the current status to the target environment by outlining the long-term actions necessary to move the Department from its current financial management environment toward an integrated financial management system. The Transition Plan also summarizes the activities of the Military Departments, the DFAS, and other Defense Agencies in financial management.

Volume II
Overview

Volume II is organized by the principal components of the integrated financial management system: finance and accounting systems, critical feeder systems, policy and oversight, and infrastructure. Details for systems are presented, including: compliance status, deficiencies, corrective actions, milestones, resources, and graphical representations of system interfaces. Details on the policy and oversight and infrastructure initiatives are also provided.

**Results of the
Financial
Management
Improvement
Plan**

The Financial Management Improvement Plan links the current status and actions the Department is pursuing to improve its financial management and transition to the designated target architecture.

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Background

The Plan is a single integrated document that incorporates existing regulatory reporting requirements. The range of information contained in the Plan satisfies the following regulatory reporting requirements:

- Chief Financial Officers (CFO) Financial Management Five Year Plan - CFO Act of 1990, submitted annually on September 30
- Remediation Plan – Federal Financial Management Improvement Act (FFMIA) of 1996, submitted annually September 30
- Statement of Assurance, Section IV – Federal Managers’ Financial Integrity Act of 1982, submitted annually December 31

The primary focus of this year’s plan is to provide the overall compliance status of the Department’s financial management and critical feeder systems and outline the steps the Department is pursuing to transition to the target architecture. The Plan provides a description of the Department’s target architecture, or Concept of Operations (Concept), status of the current environment, a review of recent financial management reforms, and an outline as to how the current financial management environment will transition to the future environment.

The Plan is Divided into Two Volumes

Due to the range and amount of detailed information contained in the Plan, the Plan is divided into two volumes. Volume I contains the Department’s financial management concept of operations detailing how the Department’s leadership intends to manage its financial operations in the future and a transition plan that outlines the long-term actions required.

Volume II contains the detailed supporting documentation for the finance, accounting, and critical feeder systems, as well as the policy and oversight and infrastructure improvement initiatives described in Volume I. Details on compliance status and the long-term strategies to reach substantial compliance with Federal financial management systems requirements, including corrective actions, milestones and resources, are provided for each system.

Concept of Operations (Concept)

The Concept is the conceptual framework the Department needs in order to establish sound financial management. The Concept is discussed in four segments: target architecture, functional concept, infrastructure concept, and summary.

The target architecture is expressed as an integrated financial management system that includes the following four parts: finance and accounting systems, critical feeder systems, policy and oversight, and the supporting

infrastructure. The functional concept describes the processes and actions that must be performed as they relate to finance, accounting, and critical feeder systems. Respective policy and oversight guidance is provided throughout the functional concept.

The infrastructure concept describes the resources supporting the systems and functions. The summary reviews the Concept and reiterates the role of the Concept as the Department's vision of future financial management.

Joint Financial Management Improvement Program

The Department is responsible for complying with applicable laws enacted by the Congress and implementing the rules, regulations, and guidelines established by the Federal Government's financial leadership, collectively referred to as the "principals." The principals (i.e. the Department of Treasury, the Office of Management and Budget (OMB) and the General Accounting Office (GAO)) shape and define the requirements for financial compliance. One of the principals' key programs is the Joint Financial Management Improvement Program (JFMIP). The JFMIP establishes requirements for various financial systems and outlines the functions and financial processes needed to execute government programs.

The Department's Basic Financial Requirements

There are two basic financial management categories that comprise the Department's financial management operations:

- program financial management requirements
- core financial management requirements

Program Management Requirements

The first category, program financial management requirements, has five major program management functions that provide critical program data to the Department's financial management systems:

- acquisition
- personnel
- cost management
- property management
- inventory management

The Military Departments and the Defense Agencies perform these functions anytime they acquire, transport, manage, use, or dispose of resources.

Core Financial Management Requirements

The second category, core financial management requirements, has two core financial management functions, transaction processing and accounting and reporting.

The transaction processing function includes:

- receivables and collections
- payables
- payroll
- property accounting
- inventory accounting

The transaction processing function records the results of payments to Department of Defense (DoD) personnel, retirees and annuitants, and contractors, and records and tracks funds received by the Department.

The accounting and reporting function shows the financial impact of all the Department's financial events through the general ledger, funds control, cost accounting, and cash management.

Financial Event Processing Requirement	The bridge between program financial management requirements and core financial management requirements is financial event processing, which has two functions. The first function, event translation, translates program data into required financial information. The second function, event recognition, creates accounting transactions by capturing financial event information after it has been recognized from a program feeder system.
Feeder Systems	Approximately 80 percent of the Department's financial data is derived from program feeder systems. Program feeder systems are automated or manual systems operated by the Military Departments and the Defense Agencies that contain the day-to-day operating information requiring translation into financial information and processed in the finance and accounting systems. The Department created financial event processing to describe how day-to-day program actions, called program events, are translated into auditable financial transactions. The data provided by program feeder systems must be reconciled with financial information in accounting records. Therefore, an audit trail must be maintained to explain any variations and to identify the event causing the variation.
System Internal Controls	<p>This segment outlines the system internal controls necessary to ensure the integrity of data. These controls ensure the data entered into systems is proper and the information produced from the data is accurate and reliable. System internal controls include ensuring:</p> <ul style="list-style-type: none"> • regulations are followed • programs achieve intended results • fraud, waste, and abuse are minimized • program data is maintained and is accurately reported

Policy and Oversight	<p>The financial management community's senior leadership is responsible for developing financial management policy, overseeing its implementation, encouraging and monitoring compliance by those outside the financial community, and ensuring compliance by members inside the financial community. In addition, the financial management community is responsible for implementing process and system improvements and reporting on progress.</p>
Managerial Internal Controls	<p>Managerial internal controls provide for an environment conducive for producing accurate information. Managers will make certain that the following internal controls are incorporated:</p> <ul style="list-style-type: none"> • regulations are followed • programs achieve intended results • resources are properly utilized • fraud, waste, and abuse are minimized • program goals are consistent with the Department's goals
Operating and Technical Infrastructures	<p>The operating infrastructure consists of organizations, personnel, and internal control mechanisms required to manage and account for the Department's resources. Specifically, the operating infrastructure includes operating location consolidations, achievement of required competencies for financial management personnel, accurate reporting of information on financial statements, and the reliability of this information.</p> <p>The technical infrastructure assists the Department in achieving the desired improvements in financial management. It includes:</p> <ul style="list-style-type: none"> • system architecture, which addresses the utilization of a shared data environment through the use of a corporate database and a corporate data warehouse • system applications, which focus on the core financial management requirements • system interfaces between core systems and program feeder systems and the method used to transfer information between these systems • data in a common format includes common data structure, standard fiscal code, and standard business rules • internal controls concerned with environment controls, risk assessment, information and communication, and monitoring
Operational and Technical Internal Controls	<p>The operational and technical infrastructure will address internal controls in the following areas:</p> <ul style="list-style-type: none"> • providing a controlled environment • performing risk assessments

- ensuring security of information and communication
- monitoring for intentional or unintentional data modifications

New technological developments, training on new procedures, and fraud detection and prevention processes, such as data mining, will be implemented to ensure the Department's financial management activities are protected.

Evolving Concept The Department will update the Concept as goals are accomplished, objectives are met, and new requirements and technical solutions emerge.

Current Environment The Current Environment section of the Financial Management Improvement Plan reports on the progress to date in achieving the Department's financial management goals, discusses current DoD roles and responsibilities, and the financial management organizations. This section also notes the current financial management status and identifies areas requiring improvement. Finally, a summary of current DoD financial management provides an assessment of the Department's current financial management status and identifies how the Department will move from its current environment to the future environment, which is laid out by the Concept.

DoD Goals The FY1998 Biennial Financial Management Plan identified three financial management goals to serve as tools in setting priorities and measuring programmatic success. These goals seek to ensure that the financial management system maximizes efficiency while minimizing opportunities for fraud, provides outstanding customer service, and meets statutory requirements. These three goals are:

- implement effective financial management systems
- reengineer DoD business practices
- improve the financial management framework

DoD Achievements During FY 1999, the Department continued to make substantial progress toward achieving an integrated financial management system by pursuing the goals listed above. Achievements and progress this year toward those goals include:

- identifying critical feeder systems
- tasking the completion of evaluating finance, accounting, and critical feeder systems for compliance with financial management requirements by March 31, 2000
- producing annual savings of \$23 million through improving and streamlining financial services

Roles and Responsibilities	<p>Over the past several years, the Department’s finance and accounting organization and management structure underwent major changes. Significantly, the Defense Finance and Accounting Service (DFAS), the Military Departments, and the Defense Agencies now share the finance and accounting responsibilities that previously belonged only to the Military Departments and the Defense Agencies.</p>
Organization and Management	<p>The organization and management of the Department’s financial management operations includes the Office of the Secretary of Defense (OSD), the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), the Military Departments, and the Defense Agencies. The OUSD(C) has a direct line of authority over the DFAS but no direct line of authority over the financial management staff within the Military Departments and the Defense Agencies.</p> <p>Each Military Department directs and manages financial management activities consistent with policies prescribed by the OUSD(C) and their respective implementing directives.</p> <p>To ensure the Department’s senior leaders are involved in the financial management improvement process, a Financial Management Steering Committee and a Working Capital Funds Policy Board were formed. Their purpose is to approve and monitor the Department’s financial management reform efforts.</p>
Financial Management Operating Organization	<p>The Department’s financial management operating organization consists of finance and accounting operations handled by the Military Departments, the Defense Agencies and the DFAS. Source-level financial management data originates in the Military Departments and the Defense Agencies, with the DFAS acting as the primary financial accounting organization. Financial management data from the Military Departments and the Defense Agencies is fed to the DFAS and processed in the Department’s finance and accounting systems.</p> <p>The final area of the Department’s finance and accounting structure is the technical support structure. The technical support structure, for required finance and accounting, is maintained at the Department’s five DFAS centers where multiple systems are used to perform finance and accounting functions.</p> <p>The Military Departments and Defense Agencies maintain their own feeder systems or program systems to support their respective missions. These program feeder systems send financial data to the DFAS systems through electronic or manual interfacing.</p>

Financial Management Status	This segment provides a status of the progress the Department has made toward developing effective financial management resulting from progress made in achieving the integrated financial management system identified in the Concept.
Finance and Accounting Systems	Of the 98 finance and accounting systems, 8 systems have been determined to be substantially compliant, 9 systems are partially compliant, 10 system's compliance status has not been determined, and 5 systems are non-compliant. There are 66 legacy finance and accounting systems scheduled for either elimination or replacement and resources will not be allocated to make them compliant.
Critical Feeder Systems	Of the 70 critical feeder systems, 15 have been determined to be substantially compliant, 3 partially compliant, 4 non-compliant, and 13 system's compliance status has not been evaluated. There are 35 legacy critical feeder systems scheduled for either elimination or replacement and resources will not be allocated to make them compliant.
Policy and Oversight	<p>In pursuit of sound financial management, the Department has promulgated more stringent and responsible guidance in a number of financial management areas. Such policies include, but are not limited to:</p> <ul style="list-style-type: none"> • establishing obligations for unmatched disbursements, negative unliquidated obligations, and in-transits • recording obligations in the official accounting systems within 10 days • establishing responsibilities and requirements for reconciling contract payments • reviewing and validating obligations at least three times annually • ceasing payments should accounts become negative • implementing the United States Standard General Ledger structure • pre-validating payments at levels below those required by statute • establishing roles and responsibilities for the DFAS and the Military Departments for the preparation of various financial reports
Infrastructure	<p>A supporting infrastructure is essential for achieving the integrated financial management system. The infrastructure provides the environment in which efficient and effective financial management operations may be conducted. Areas on which the Department has focused its efforts this year to provide an effective and efficient financial management infrastructure include:</p> <ul style="list-style-type: none"> • the DFAS Corporate Information Infrastructure (DCII) • capable and competent workforce • information assurance • Y2K computer problem

Short-term Implementation Strategies The Department is formulating interim strategies to achieve a satisfactory level of compliance in its major accounts and attain more favorable audit opinions on financial statements. The implementation strategies to achieve auditable financial statements are focused on correcting deficiencies in the following areas:

Property, Plant, and Equipment (PP&E)

- 1) Existence & Completeness
- 2) Valuation of General PP&E
- 3) Government Property in the Hands of Contractors
- 4) Deferred Maintenance

Inventory

- 5) Existence, Completeness, and Valuation of Inventory
- 6) Operating Material & Supplies

Future Liabilities

- 7) Restoration
- 8) Hazardous Waste
- 9) Disposal
- 10) Post-Retirement Health Care

U.S. Treasury Fund

- 11) Fund Balance with Treasury

Eliminations

- 12) Intragovernmental Eliminations

Remediation Plan Analysis The Department has determined that its financial management systems are not in compliance with the FFMIA's stated requirements. To bring its financial management systems into substantial compliance, the Department is using the resources, remedies, and intermediate target dates described in this Plan.

Remedy to Achieving Substantial Compliance The Department is attempting to bring its financial management systems into substantial compliance with the FFMIA requirements and achieve an integrated financial management system. The objectives are to:

- ensure finance and accounting and critical feeder systems comply with statutory, regulatory and audit requirements
- eliminate unnecessary systems and consolidate finance and accounting

-
- functions to a select set of migration systems
 - develop standard applications that use integrated or interfaced databases and a flexible infrastructure to support future changes
 - implement a “single entry” structure that allows one-time data input
-

Transition Plan	The Transition Plan section of the Financial Management Improvement Plan identifies and documents the improvements required to bridge the gap between the current and future environments and incorporates plans and initiatives. It includes goals and strategies, architectures, action plans, data flows, and organizational infrastructure changes necessary to transition the Department to the target environment.
Integrated Financial Management System	The Department’s target architecture of an integrated financial management system will be comprised of substantially compliant finance, accounting, and critical feeder systems; efficient and effective policy and oversight; and supporting infrastructure.
System Compliance Evaluations	<p>As a first step in transitioning to an integrated financial management system, the Department has tasked the Military Departments and Defense Agencies to evaluate the compliance status of finance, accounting, and critical feeder systems according to the following criteria:</p> <ul style="list-style-type: none"> • applicable accounting principles, standards, and related requirements as defined by the OMB and the Department of the Treasury • internal control standards as defined in OMB Circular A-123 and/or successor documents • information resource management policy as defined in OMB Circular A-130 and/or successor documents • operating policies and related requirements prescribed by the OMB, the Department of the Treasury, and the Department of Defense • financial management systems as defined in OMB Circular A-127
Y2K Like Approach	The Department intends to develop a “Y2K like” approach for compliance implementation tracking and reporting. The “Y2K like” approach to financial management compliance will consist of a four-phase compliance tracking and reporting system.
Integrated Financial Management System Initiatives	<p>The Department is implementing initiatives to achieve an integrated financial management system. Strategies relate to the four parts of the integrated financial management system and include:</p> <ul style="list-style-type: none"> • implementing effective systems • reengineering business practices • improving financial management framework

Organization and Scope	<p>The first part of the Transition Plan contains summaries by the individual Military Departments and the DFAS in their efforts to achieve compliant finance, accounting, and critical feeder systems, and ultimately the target architecture of an integrated financial management system.</p> <p>The second part of the Transition Plan contains the four parts of the integrated financial management system. Within the finance and accounting systems segment, systems are classified by finance or accounting system category. Critical feeder systems are classified by their respective program functions (i.e., acquisition, personnel, property management, inventory management, and cost management). This section provides an overview of each function's:</p> <ul style="list-style-type: none">• system compliance status• major impediments to substantial compliance• system consolidation efforts• action plans for accomplishing future consolidation• key milestones the function has accomplished, and is expected to accomplish in compliance and consolidation efforts <p>Under the policy and oversight and infrastructure sections, individual improvement initiatives are listed generically to provide an overview of key activities underway. Together, the functional status and improvement initiatives provide the road map to achieving the integrated financial management system.</p>
Conclusion	<p>The Plan is a synopsis of the breadth and scope of the financial improvement initiatives the Department is taking to achieve legislative financial compliance, not only by the DFAS, but also by the Military Departments and the other Defense Agencies. The Department also establishes its target architecture as to how it intends to manage its future financial management operations, presents where the Department is now, and lays out actions the Department intends to take to transition to the Concept.</p>

SECTION I

INTRODUCTION

VOLUME I INTRODUCTION

**Document
Scope and
Objective**

The Department of Defense (the Department) consolidated several reporting requirements into a single integrated plan. This plan, entitled the Financial Management Improvement Plan (the Plan), fulfills the following reporting requirements:

- Chief Financial Officers (CFO) Financial Management Five Year Plan - CFO Act of 1990, submitted annually on September 30
- Remediation Plan – Federal Financial Management Improvement Act of 1996, submitted annually September 30
- Statement of Assurance, Section IV – Federal Managers’ Financial Integrity Act of 1982, submitted annually December 31

The Plan includes input from, and coordination with, the following communities within the Department:

- Office of the Under Secretary of Defense (Comptroller) (OUSD(C))
 - Military Departments (the Army, the Navy, and the Air Force)
 - Defense Finance and Accounting Service (DFAS)
 - Other Defense Agencies (such as the Defense Logistics Agency (DLA) and the Defense Information System Agency (DISA))
 - Office of the Under Secretary of Defense (Acquisition and Technology) (OUSD(A&T)) and Under Secretary of Defense (Personnel & Readiness) (OUSD(P&R))
-

**Plan
Organization**

The Plan is divided into two volumes. Volume I includes high-level information about the Department’s financial management operations. This volume provides the overall picture of the Department’s financial management operations, the concept of financial management operations toward which the Department is moving, and a broad plan describing how the Department will transition to this concept.

Volume II provides detailed information, such as corrective actions and milestones about the Department’s financial initiatives discussed throughout the Plan, supporting the transition to the Concept of Operations. Volume II also contains graphical representations of system interfaces of finance and accounting systems and critical feeder systems identified in the Plan.

**Volume I
Organization
and Content**

The information in Volume I is presented in four sections with four appendices:

Section I: Introduction
 Section II: Concept of Operations
 Section III: Current Environment
 Section IV: Transition Plan
 Appendix A: Regulatory Requirements Matrices
 Appendix B: Report on Accounting System Conformance
 Appendix C: Acronyms

**Section I
Introduction**

The Introduction explains the Plan's scope and objective, how the Plan is organized, and describes Volume I content and organization.

**Section II
Concept of
Operations**

The Concept of Operations (Concept) identifies the end state after implementation of this plan. The concepts for the future environment are generally high level and will generally remain constant in future years, unless groundbreaking technology significantly changes the computer industry.

The purpose of the Concept is to describe the Department's target financial management environment requirements, functions, roles and responsibilities, and infrastructure. The Department developed this Concept to provide an understanding of how it will structure financial operations in the future after current issues are resolved. The Department will use this Concept to guide the evolution of its financial management policies, systems, functions, and improvement initiatives by specifying the elements necessary to meet regulatory requirements, achieve integrated financial management systems, and produce auditable financial statements.

**Section III
Current
Environment**

To move forward and make improvements, the Department must have a clear understanding of its current strengths, weaknesses, and areas for improvement. Section III, the Current Environment, reports on the progress to date in achieving the target architecture, notes the present status, and identifies areas requiring improvement. The Department's current roles and responsibilities and structure regarding financial management are outlined to provide a better understanding of the key organizations and processes that currently exist. Section III ends with a summary of the Department's current financial environment and identifies how the Department intends to move to the future environment described in the Concept.

**Section IV
Transition Plan**

The purpose of the Transition Plan is to demonstrate how the Department is moving from its current state of operations, as described in the Current Environment, to the target architecture of an integrated financial management system, as described in the Concept. The Department plans to achieve this through the execution of key actions. These actions are detailed

in the Transition Plan and are grouped by the four parts of the integrated financial management system (finance and accounting systems, critical feeder systems, policy and oversight, and infrastructure).

Appendix A The matrices in Appendix A indicate where current regulatory reporting requirements are incorporated into the Plan.

Appendix B Appendix B provides the Department's FY 1999 systems inventory required by Section 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982.

Appendix C Appendix C defines the acronyms used in the Plan.
